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## ABSTRACT

This review and analysis of a report by the National Institute of Education on compensatory education addresses the question of allocation of funds under Title I of the Elementary and Secondary Education Act. It describes the Title I formula and its effectiveness in allocating federal education funds, and analyzes some alternatives to the current formula. The discussion is limited to basic grants to school districts and does not include Title I funding for state agency programs, state administration, Puerto Rican schools, Bureau of Indian Affairs, and outlying territories, or Part B special incentive grants. Allocation formulas for state compensatory education programs are also excluded from this discussion. The report shows that federal financial assistance has been allocated on the basis of the number of children from low income families, and to that extent, the ESEA Title I allocation process is operating properly. The findings are based on data from the census of the population, on Title I program data, and on various surveys of school districts. (Author/AM)

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AN ANALYSIS OF "TITLE I FUNDS  
ALLOCATION: THE CURRENT  
FORMULA"

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January 26, 1978

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FOREWORD

A study of the fundamental purposes and effectiveness of compensatory education was mandated by the Education Amendments of 1974. The Congress made the National Institute of Education (NIE) responsible for investigating both the Title I program of the Elementary and Secondary Education Act of 1965 (ESEA) and similar programs funded by some of the States.

The legislation authorizing the NIE study does not specifically define "compensatory education," but the ESEA Title I declaration of policy has sometimes been considered a useful guideline:

In recognition of the special educational needs of children of low-income families and the impact that concentrations of low-income families have on the ability of local educational agencies to support adequate educational programs, the Congress hereby declares it to be the policy of the United States to provide financial assistance (as set forth in the following parts of this title) to local educational agencies serving areas with concentrations of children from low-income families to expand and improve their educational programs by various means (including pre-school programs) which contribute particularly to meeting the special educational needs of educationally deprived children. [Section 101, ESEA]

ESEA Title I is the largest Federal program for elementary and secondary education; more than \$20 billion have been appropriated for the Title I program in its first 13 years (fiscal years 1966-78), and the fiscal year 1979 appropriation would be \$2.735 billion under the provisions of P.L. 95-205 (Continuing Appropriations, Fiscal Year 1978). The fiscal year 1979 Administration budget proposal includes a Title I request for \$2.979 billion for fiscal year 1980, plus \$400 million for proposed additions to the Title I legislation.

Compensatory education programs in nearly 90 percent (about 14,000) of the Nation's school districts, plus some 240 Bureau of Indian Affairs (BIA) schools, are funded through Title I. Approximately five million public school children, 225,000 private school children, and 31,000 BIA school children participate in these programs.

In its report of December 1976, the NIE found that 16 States operated compensatory education programs during the 1975-76 school year, with a funding level of \$600 million ("Evaluating Compensatory Education," p. III-13).

AN ANALYSIS OF "TITLE I FUNDS ALLOCATION: THE CURRENT FORMULA"<sup>1/</sup>

This report by the National Institute of Education (NIE) is one of six constituting the September 30, 1977, interim report to the President and the Congress on a comprehensive study of compensatory education.<sup>2/</sup>

The NIE study has identified three specific "fundamental purposes" of Title I of the Elementary and Secondary Education Act (ESEA):

- (1) To provide financial assistance to school districts in relation to their numbers of low-income children and, within those districts, to the schools with the greatest numbers of low-income children;
- (2) To fund special services for low-achieving children in the poorest schools; and
- (3) To contribute to the cognitive, emotional, social, or physical development of participating students.<sup>3/</sup>

The focus of this NIE report is on the first of these objectives -- the allocation of funds.

This analysis contains a summary of findings, recommendations, implications, research limitations, and context of the report.

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<sup>1/</sup> U.S. Department of Health, Education, and Welfare. National Institute of Education. Title I Funds Allocation: The Current Formula. Washington, September 30, 1977.

<sup>2/</sup> The six parts of the September 1977 interim report describe selected aspects of the overall NIE study, including the allocation of funds, compensatory education services, student development, and the administration of compensatory education programs. Greater detail about the scope of the study, the interim report, and the bills introduced in the 95th Congress to extend Title I may be found in Section V of this analysis.

<sup>3/</sup> U.S. Department of Health, Education and Welfare. National Institute of Education. Evaluating Compensatory Education. Washington, December 30, 1976. p. xiii.

## I. Summary of Findings

"Title I Funds Allocation: The Current Formula" describes the Title I formula and its effectiveness in allocating Federal education funds, and analyzes some alternatives to the current formula. The NIE discussion is limited to basic grants to school districts -- accounting for 81 percent of the total Title I appropriation -- and does not include Title I funding for State agency programs, State administration, Puerto Rican schools, Bureau of Indian Affairs, and outlying territories, as well as Part B special incentive grants. Allocation formulas for State compensatory education programs are also excluded from the NIE report.

The report shows that Federal financial assistance has, in general, been allocated on the basis of the number of children from low-income families, and to that extent, the ESEA Title I allocation process is operating properly. The findings are based on data from the census of population, on Title I program data, and on various surveys of school districts.

### A. The Title I Allocation Formula

As described in the NIE report, allocations for Title I basic grants to school districts are determined first for counties, then for school districts within counties, and finally for eligible schools or attendance areas within school districts.

County entitlements are determined by a Federal formula that multiplies the number of eligible children times a cost factor. Eligible children are the number of children aged 5 to 17 from families in poverty

as counted in the 1970 census of population ("Orshansky children"), plus two-thirds of the number of children aged 5 to 17 from families receiving payments above the current poverty level from the Aid to Families with Dependent Children (AFDC) program, plus the number of children aged 5 to 17 who live in foster homes or in institutions for neglected or delinquent children. The cost factor is 40 percent of each State's average per pupil expenditure (APPE), except that no State's APPE shall be calculated at less than 80 percent nor more than 120 percent of the national APPE for purposes of the Title I cost factor.

County allocations are equal to county entitlements if appropriations are sufficient to fully fund the Title I program. If appropriations are not sufficient (as has been the case since the first year of the Title I program), all county entitlements are proportionally reduced except that no county may receive less than 85 percent of its previous year's allocation.

School district allocations are the same as for counties in the four States plus the District of Columbia where the boundaries of counties and districts are identical. In the remaining 46 States, boundaries are not coterminous and States must allocate the funds of each county to the districts within the county. These allocations must be done on an "equitable basis" in accordance with criteria prescribed by the U.S. Commissioner of Education.

Allocations to schools or attendance areas are determined by the school district in accordance with Federal and State regulations and guidelines. The district identifies eligible schools on the basis of poverty criteria, decides which of the eligible schools will receive

funding ("target schools"), identifies categories of children that are eligible to be served on the basis of educational deprivation, and selects the students who will receive services from among those eligible.

In sum, the Title I allocation formula can involve as many as four separate steps:

- (1) the determination at the Federal level of county allocations, based primarily on poverty criteria;
- (2) the determination at the State level of school district allocations within counties, based on poverty criteria that are frequently different from those used in the first step;
- (3) the determination at the school district level of eligible schools and, among those, target schools, based on poverty criteria or on educational need; and
- (4) the determination at the school district level of the students to receive services, based on educational need and irrespective of poverty criteria.

#### B. The Effects of the Current Formula

The NIE report examines the effects of the current Title I allocation formula; the findings are organized in this analysis by the distributional consequences of the allocations for counties, school districts, and eligible and target schools.

At the county level, the report shows that allocations increase as the number of eligible children per county increases. Central cities and rural places in nonmetropolitan areas receive the largest shares of Title I funds, and among the four census regions (Northeast, North-Central, South, and West), the Southern region receives the most dollars per school-aged child, but urban areas and the Northeastern region receive the most dollars per child eligible for Title I. Allocations per eligible child are lowest in counties with the very highest concentrations of eligible

children. For example, in counties with more than 50 percent of the children eligible under the Title I formula, the average Title I allocation is \$164 per eligible child. In comparison, the national average is \$193 per eligible child, and the figure is highest for central cities in the Northeastern region at \$238 per eligible child.<sup>4/</sup> Variations in the cost factor account for these differences.

At the school district level, the NIE report indicates that not all States use the same method for determining allocations. Of the 46 States where county and school district boundaries are not coterminous, 24 States replicate the county allocation formula, while the remaining 22 States use different formulas. Four States were found that pooled the county allocations within each State and determined school district allocations directly — regardless of county allocations and in apparent violation of the basic Title I legislation.<sup>5/</sup> Many States apparently have some difficulty in finding timely and accurate data suitable for determining district allocations, and the problems are possibly compounded by the imperfect match among children from poverty families, AFDC families, and minority families, according to the NIE report.

The report examines the relation between Title I allocations and various expenditure and wealth variables. Local expenditures per pupil are analyzed statistically to ascertain the extent to which

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<sup>4/</sup> U.S. Department of Health, Education, and Welfare. National Institute of Education. Title I Funds Allocation: The Current Formula, p. 11-15.

<sup>5/</sup> Ibid., p. 44.

Title I dollars have been used by the districts for additional spending and the extent to which the Federal funds have displaced local expenditures, for example, through tax relief.<sup>6/</sup> According to the report, several Title I provisions, such as regulations for maintenance of effort and comparability, are intended to guarantee that grants are to be used to raise local spending. The report states that, "while it is impossible to determine the exact impact of Title I dollars, clearly about two-thirds of Title I grants are used for additional spending."<sup>7/</sup> These findings show only how, by statistical criteria, Title I funds affected budgets of school districts; they do not indicate the amount of funds spent on compensatory education programs and services.

The redistributive and equalizing effects of Title I allocations are also examined in the NIE report. Districts were ranked by the percentage of pupils in poverty. It was found that districts in the quartile with the greatest concentration of poverty children received five-and-one-half times as much Title I aid per pupil in average daily membership as districts in the lowest quartile -- a ratio considerably more redistributive than either other Federal programs or State aid programs.<sup>8/</sup>

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6/ Ibid., p. 83-88.

7/ Ibid., p. 85. Two analyses were made, using different statistical models and producing somewhat different results. A footnote to the quotation indicates that, "a true value between 57 cents and 72 cents would be consistent" with either estimate of the additional spending from a dollar of Title I aid.

8/ Ibid., pp. 92-94.

In an analysis of the equalizing effects of Title I, districts were ranked by revenue per pupil from State and local sources. Title I funds per pupil in districts in the lowest revenue quartile were found to be slightly higher than in districts in the highest revenue quartile, showing that Title I may have a moderately equalizing effect. However, the data are not entirely consistent; in one of the years studied, districts in the upper half received more per pupil than those in the lower half.<sup>9/</sup>

At the school level, 68 percent of all schools in Title I districts were reported as eligible for services, and 94 percent of these were selected to receive services.<sup>10/</sup> Selection criteria used by school districts included poverty data, AFDC data, and free school lunch data; several sources of data frequently were used in combination. An NIE survey of Title I school districts indicates that districts apparently have widely varying methods and great discretion in the allocation of funds to target schools.

#### C. Possible Changes in the Allocation of Title I Funds

The NIE report estimates the effects of possible changes in the Title I allocation process, including changes in the cost factor, the counting of eligible children, the basic definition of poverty, and the district level allocation procedures.

Two changes in the cost factor are considered -- a uniform factor and

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9/ Ibid., pp. 94-98.

10/ Ibid., pp. 60-64.

an unlimited factor.<sup>11/</sup> The uniform factor would entitle all States at the national average per pupil expenditure (APPE), and the unlimited factor would entitle all States at their own APPE, regardless of the national average. In comparison with the current cost factor, the application of the uniform cost factor would result in a 14 percent gain in allocations for the Southern region at the expense of the other three regions, most notably the Northeast, where an 18 percent loss would occur. The explanation for this shift is that the South, with some of the lowest State APPE's, gains through the use of the national APPE, while the Northeast, with some of the highest State APPE's, is brought down to the national average. Conversely, the unlimited cost factor would benefit the Northeast with a 19 percent gain in allocations, while the other regions would lose, especially the South with a 10 percent loss. Large central cities in general would lose through the uniform factor but would gain from the unlimited factor, while most non-metropolitan areas would be changed in the opposite direction.

The report analyzes the effects of some possible changes in the counting of eligible children in the current allocations formula. The Orshansky children account for 90 percent of all eligible children in the current formula. If the formula were based solely on Orshansky children, the report claims that both central city and suburban areas would lose some of their allocations, and nonmetropolitan areas would benefit.<sup>12/</sup>

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<sup>11/</sup> Ibid., pp. 34-39.

<sup>12/</sup> Ibid., pp. 26-30.

If the formula were based only on school-aged population, the suburban areas would benefit, and both central city and nonmetropolitan areas would lose in comparison with the current formula.

Changes in counting AFDC children are also investigated in the report.<sup>13/</sup> Nationwide, these children account for about seven percent of all eligible children, but they are not evenly distributed. Five States -- New York, Michigan, California, Illinois, and Pennsylvania -- account for approximately 25 percent of all eligible children, but they account for about 75 percent of all AFDC children. If the eligible AFDC children were fully counted in the formula (instead of the current two-thirds count), these States and the urbanized areas within them would gain additional funds at the expense of other areas. Conversely, if the AFDC children were omitted entirely from the formula, these States and areas would have a decreased share of the allocations.

The report investigates the effects on a regional basis of omitting foster children and children in institutions for the neglected or delinquent. The consequences are reported to be similar to the omission of AFDC children, although the amount of Title I funds involved is not as great.<sup>14/</sup>

Several studies on the basic definition of poverty have been undertaken recently, and the report summarizes the various findings.<sup>15/</sup> These studies were partially based on criticism that the Orshansky poverty counts

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<sup>13/</sup> Ibid., pp. 30-34.

<sup>14/</sup> Ibid., p. 34.

<sup>15/</sup> Ibid., pp. 65-81.

were out of date, and that the Orshansky index poorly measured poverty as well. The current Orshansky count is based on 1969 income reported in a sample of the 1970 census of population. Although the Orshansky measure itself had been adjusted by changes in the consumer price index and by other methods to reflect a poverty standard for 1969, one of the components of the measure -- the ratio of food to nonfood needs of a family at the poverty line -- was last estimated in 1955.

An attempt to update poverty counts by State was undertaken by the Bureau of the Census by means of the Survey of Income and Education (SIE). In a survey of 151,000 households in 1976, the SIE found that the number of children from families in poverty had decreased almost eight percent from the 1970 census figure. However, the Current Population Survey (CPS), also conducted by the Bureau of the Census, estimated the number of children in poverty in 1976 to be over six percent greater than the 1970 figure. The CPS does not make estimates for States, and uses different methods and sampling techniques. The SIE also found significant shifts in the distribution of poverty since 1970 -- the Southern region and the West North-Central States declined in their share of poverty, while the Northeast and Great Lakes regions increased. The major drawback in using the SIE data for Title I allocations is that the estimates of poverty can be used only at the State level; the sample is too small for county level or school district level allocations, according to the NIE report.

Other studies have calculated the number of persons in 1970 that would be classified as "poor" under revised poverty definitions. One modification

would simply increase the income level for the poverty cutoff by a fixed percentage. A level of 150 percent of the original level would increase the share of poverty thus defined in both the Northeast and North-Central regions by about 11 percent and decrease the South's share by about 9 percent. The West would be relatively unaffected. The 150 percent level also would increase the share of poverty in suburban areas, while decreasing the central city and nonmetropolitan shares of poverty.

Other suggested modifications to the Orshansky measure have included: additional adjustments for family size, changes in the cost of a family's basic dietary needs, changes in the ratio between food and nonfood items in the minimum family budget, elimination of the distinction between farm and nonfarm families, geographic distinctions, and "in-kind" income (i.e., income in a form other than cash). The report summarizes these and other changes, and discusses the merits of using some of them in an allocations formula. It indicates that no consensus has been reached on the potential benefits of the modifications and that none of them would produce basic poverty counts at the county level that would be more recent than the 1970 census of population.

The report discusses four alternatives to the current process of district level allocations.<sup>16/</sup> These alternatives are presented as possibilities that might reduce the inconsistent treatment of district

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<sup>16/</sup> Ibid., pp. 48-53.

allocations in some States and might increase the timeliness and accuracy of data used by States in making allocations. The four possibilities include:

1. Subcounty allocation, where States would be required to use a single, nationally uniform formula for district allocations;
2. Substate allocation, which would omit the calculation of county allocations, but require States to use a nationally uniform formula for district allocations;
3. Direct (national) allocation, where the Office of Education would calculate district allocations by a nationally uniform formula based on data collected by the States; and
4. Multiple formula substate allocation, where the Office of Education would only calculate State grants, and the States would select a formula for district allocations.

In States with coterminous counties and districts, these alternatives would have little impact. In the remaining States, the effect of each alternative would depend on current State procedures for district allocations. The report considers both the shift in administrative responsibilities and the new data required by each proposal. Apparently, however, none of the alternatives resolves an underlying conflict between the currency and the consistency of data needed for district allocations, and it remains unclear whether any of these proposals would be better overall than the current district allocation procedures.

## II. Recommendations

The focus of "Title I Funds Allocation: The Current Formula" is on the procedures used for determining ESEA Title I funds to States, counties, school districts, and schools. This report makes no explicit recommendations for legislative action. (The NIE is obligated to make recommendations as part of the overall study, but the final report is not due until September 30, 1978.)

### III. Implications

Several aspects of the current ESEA Title I program are described in the NIE report that might be of particular interest to the Congress, including:

- the overall effectiveness of the Title I formula in the allocation of funds based on the number of children from low-income families;
- the subcounty allocation process;
- the spread of funds to schools within districts; and
- the timeliness and accuracy of data used in the allocation process.

#### A. The Effectiveness of the Formula

The report demonstrates that the Title I formula is distributing Federal assistance to States, counties, and school districts in proportions generally similar to the number of eligible children. Several exceptions occur, however. A number of States distribute funds within counties to school districts by formulas that vary from the Federal formula for allocating to counties, causing significantly different patterns of allocations at that level than if the Federal formula had been used (a topic that will be discussed in the next section).

The report also indicates that, in general, counties with the highest concentrations of eligible children receive the lowest Title I dollars per eligible child.<sup>17/</sup> It is not stated how many school districts or children are involved, but about a quarter of the total Title I allocation is

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<sup>17/</sup> Ibid., pp. 14-15.

currently distributed to counties with concentrations of 30 percent or more eligible children. However, in an analysis of the redistributive effects of Title I allocations at the school district level, when districts were grouped in quartiles by the percentage of pupils in poverty, those districts in the highest quartile of poverty received five-and-a-half times as much Title I aid per pupil as districts in the lowest <sup>18/</sup>quartile.

The main reason that allocations are not exactly proportional to eligible children is the cost factor. Expenditures per pupil are higher in some States than others, and the Title I formula allocates more dollars per eligible pupil to those States. Counties with high concentrations of poverty children are generally located in the South, where on the average the expenditures per pupil are lower. A possible justification for the differential cost factor is that equivalent educational programs and services may cost more in States with higher expenditures per pupil; however, there appears to have been no investigation of this question in the NIE study.

#### B. The Subcounty Allocation Process

The NIE report claims that 22 States distribute Title I allocations to school districts within counties by means of formulas that differ from the Federal allocation formula to counties. These findings are not necessarily at variance with the requirements of the Title I program. The

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<sup>18/</sup> Ibid., pp. 92-94.

Title I legislation indicates that if data are not available for the U.S. Commissioner of Education to make allocations directly to school districts, then the Commissioner is to determine allocations to counties, and State educational agencies are to make the subcounty allocations. States are required to make these allocations on an equitable basis, subject to criteria prescribed by the Commissioner. The report does not indicate what criteria have been prescribed, nor does it analyze whether the allocations by States have been on an equitable basis. What the NIE study did find was that some States use different procedures, causing a different distribution at the subcounty level than if the Federal formula for counties had been used at the subcounty level. It is unclear from the report whether a problem actually exists regarding subcounty allocations, and if so, whether the legislation needs changing or whether the criteria prescribed by the Commissioner needs to be strengthened.

Four States were found that ignored the county allocations altogether, an action that does appear to be at variance with the Title I legislative requirements. The report does not make any suggestions regarding these States.

The report does not address the question of whether data on eligible children are available for the Commissioner to make subcounty allocations directly, and if not, what circumstances need to be overcome to make such data available. Since the NIE was able to obtain Orshansky data for all school districts with enrollments over 300 children, the Commissioner possibly could have made direct allocations to at

least those school districts (almost three-quarters of all school districts have enrollments greater than 300 pupils, accounting for nearly 99 percent of the nation's total public school enrollment).

### C. The Spread of Funds to Schools

The NIE report estimates that 68 percent of all schools in Title I districts are determined eligible for Title I services, and 94 percent of these are selected to be target schools. The eligibility rate seems very high because, with some exceptions, only schools with above-average concentrations of poverty are supposed to be eligible for services. Furthermore, the report claims that districts are encouraged by the regulations to be selective in choosing target schools, but more than 80 percent of the districts report serving all eligible schools.<sup>19/</sup> It appears that the NIE investigated neither the enforcement of the regulations nor the actual process with which school districts picked eligible and target schools; the causes and possible solutions of these problems remain unclear from the report.

A statistical analysis by the NIE indicates that, on the average, two-thirds of every Title I dollar is being used to increase the spending of school districts, while the remainder is apparently being used to displace local funding. Since all Title I funds are supposed to be used for additional spending, there appears to be some violation of legislative intent. The report makes no suggestion for correcting this problem, nor does it analyze which districts are in full compliance and which are not.

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<sup>19/</sup> Ibid., p. 63.

#### D. The Timeliness and Accuracy of Data

Despite studies, evaluations, and special surveys, the NIE report indicates that the only accurate poverty data at the county level are the Orshansky counts based on the decennial census of population. The Orshansky counts currently used in the Title I formula are based on 1969 income reported in a sample of the 1970 census. An accurate update of these figures will not be made until the 1980 census is processed, and these data may not be available for Title I allocations until fiscal year 1984 -- fiscal year 1974 was the first year the 1970 census data were used for Title I allocations. Orshansky children represent 90 percent of the current Title I eligibles, and therefore an accurate and timely count of them is of major importance in the Title I formula.

The Survey of Income and Education (SIE) in 1976 offers data that are more timely than the 1970 census. It indicates that major shifts in poverty populations have occurred among the States since 1970. However, at the State level, the SIE estimates of poverty counts probably are less accurate or statistically reliable than those from the 1970 census. Furthermore, the size of the SIE sample was too small to estimate poverty populations at the county or school district level, although even the 1970 census data are not entirely reliable for the smallest counties.<sup>20/</sup> There may be methods of determining State Title I allocations from the 1976 SIE data and determining county allocations within States on some other

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<sup>20/</sup> Ibid., p. 72.

basis, such as 1970 poverty data, but the report does not discuss this possibility.

The possible use of some type of AFDC data to help keep track of shifts in poverty populations between census years apparently was not investigated in the NIE study. Using AFDC data for this purpose has been considered before, and some may justify its current usage in the Title I formula on this basis.

Little is said about the efficacy of using neglected, delinquent, or foster children in the formula, although the report does claim that the foster children data are considered unreliable and are actually used in only 20 States for Title I allocations.<sup>21/</sup>

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<sup>21/</sup> Ibid., p. 50.

#### IV. Research Limitations

The NIE report provides a broad perspective on ESEA Title I allocations. Nevertheless, there are problems with some of the analyses, and certain topics are omitted from the research altogether, thereby limiting the overall usefulness of the findings. This review of the limitations follows the order of the summary of findings: the allocation formula, the effects of the formula, and possible changes in the formula.

##### A. The Title I Allocation Formula

The NIE analysis of the allocation formula excludes almost 20 percent of the Title I allocations, consisting of grants for State agency programs, State administration, Puerto Rican schools, Bureau of Indian Affairs, and outlying territories, as well as Part B special incentive grants. Since these grants are important in their own right and also influence the allocation level for school districts, it would have been useful to investigate the relation between these grants and grants to school districts, including an estimate of the relative need for each type of grant.

The NIE description of the allocation formula is based at various times on the Title I statute, the regulations, and the guidelines. Appendix B of the report provides one such description that is detailed and generally accurate (although some specific provisions are overlooked in the appendix such as: the 85 percent hold harmless on previous year payments applies only to allocations and not to entitlements; Puerto Rico

is limited to receiving 75 percent of the full amount it would otherwise receive). However, it might have been useful for the report to provide a technical summary and comparison of the key components of the statute, regulations, and guidelines as they relate to the formula and its administration. For example, a point is made that some States make subcounty allocations at variance with the county allocations determined under the Federal formula. Although subcounty allocations are required by statute to be made in accordance with criteria prescribed by the U.S. Commissioner of Education, these criteria are absent from the report.

#### B. The Effects of the Current Formula

The report provides no real standard of need for funds beyond the number and concentration of poverty children. Such children are only partially sufficient for evaluation because the formula contains not only AFDC and other children but also a cost factor that modifies the allocation per child. For example, the share of allocations is described for central cities and the Southern region, and the number of poverty children is also given. However, no standard is given with which to evaluate what the optimum share of funds should be for those places. On a fundamental level, the use of poverty as a measure of the special financial or educational needs of school districts is not discussed in the report.

Without a measure of need, there is little basis for evaluating the total amount of Title I funding. The appropriations level is less than total entitlements, but the consequences of this for the program are

unknown. Although it can be speculated that more funding would provide greater services, there is no analysis on whether the marginal return on services would increase or decrease at various funding levels. On a different dimension, current Title I funding allows for some Federal leadership in compensatory education, but additional analysis might show that nearly the same amount of leadership could be provided with a lower level of funds; however, this aspect of the Title I program was not investigated either.

For county level analysis, the report is based on a count of Orshansky children from the 1970 census that represents a revision of the official figures used in the Title I formula.<sup>22/</sup> The revised count includes an additional 19,000 children. The report claims that these figures are "somewhat more accurate" than the official numbers, but gives no indication of how they affect the analysis of fund distributions or whether the Office of Education should be using them in the Title I formula instead of the current numbers.

The county analysis is also made more tentative because of the fact that four States were found that disregarded the county allocations.<sup>23/</sup> If county allocations are disregarded, the share of Title I funds allocated to regions and place types reported by the NIE represents a hypothetical distribution rather than actual disbursements.

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<sup>22/</sup> Ibid., p. 115.

<sup>23/</sup> Ibid., p. 44. The four States, Iowa, Minnesota, North Dakota, and Oregon, account for nearly four percent of the Title I allocations.

The report contains a possibly misleading discussion comparing the differences in county allocations based on currently eligible children and those based only on census children in the Title I formula.<sup>24/</sup> The analysis implies that central cities and the Northeastern region would benefit from the exclusion of AFDC, neglected, delinquent, and foster children from the formula. In fact, those places would be at a disadvantage from such an exclusion. (The NIE study did not recompute allocations as the discussion implies, but rather divided the current allocations by the number of poverty children, producing disproportional increases in dollars per child in areas with high numbers of AFDC children. The resulting numbers show the benefits of AFDC children in the current formula rather than the potential benefits if these children were excluded.)

For district level analysis, the report again relies on the revised Orshansky poverty figures, and there is no indication how this influences the analysis. Furthermore, no Orshansky figures are available for school districts with enrollments under 300 children. Since these smaller districts account for more than 25 percent of all districts, there is no way to judge the effects of excluding them from the analysis, although the use of quartile analysis -- such as was used in the discussion of the redistributive effects of Title I -- is likely to be especially sensitive to their omission.

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<sup>24/</sup> Ibid., pp. 20-22.

Part of the district analysis is dependent on sample surveys of school districts. The report does not fully identify these surveys, nor does it always specify the size or other characteristics of the samples. However, some of these may be small and may also exclude districts with enrollments under 300, with undetermined consequences for the analysis.

At the school level, the report indicates that a surprisingly large number of schools was selected to receive services. However, the study apparently made no attempt to check the school district records as to why and how such a high percentage of schools was chosen, and the report does not discuss whether there were any educational disadvantages or benefits resulting from the spread of funds and services among many schools.

#### C. Possible Changes in the Allocation of Title I Funds

In its discussion of possible changes in the Title I formula, the NIE report analyzes the impact of the current cost factor and the distributional consequences of two alternative factors. The report does not, however, investigate the educational or financial need for the current cost factor, and it does not analyze the cost factor that was used prior to the Education Amendments of 1974 (the old factor was equal to half of the greater of the State or national average per pupil expenditure).

The report also finds what appears to be serious flaws in the current calculation of each State's per pupil expenditure. This information is

presented in a footnote, however, and no suggestion is made for correcting the problem. The footnote reads:

The data, however, are far from perfect because States do not have uniform reporting or accounting systems. State contributions to educators' employee pension funds, for example, might be included in calculating average expenditures. In nine States, retirement programs accounted for more than 10 percent of current expenditures in 1974 (1974-75 expenditures were used in the 1977 allocation). On the other hand, retirement contributions accounted for less than four percent of state expenditures in several States. It is not clear that state contributions actually vary so markedly. It appears that some SEAs [State educational agencies] have accounting systems that enable them to identify such expenditures and others are unable to include such contributions because they are made by other state or local agencies.

Another difficulty encountered in the use of the cost factor relates to the definition of ADA [average daily attendance]. In accordance with the statute, OE [Office of Education] asks States to report ADA "as defined by state law." Because States define the term differently -- some, for example, count absent children with excuses -- States with similar enrollments and expenditures might have different per-pupil expenditure figures. <sup>25/</sup>

With regard to possible changes in the eligibility criteria in the formula, the report indicates that timeliness is a critical problem with the 1970 Orshansky data, yet other estimates of poverty counts are probably less accurate. No resolution to this problem is suggested. If the Title I formula continues to use the 1970 Orshansky data, there probably will be no update available until fiscal year 1984. The NIE report does not consider

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<sup>25/</sup> Ibid., p. 35.

the consequences of this possibility, and no attempt is made to estimate the potential dislocation of allocations until newer data are available. It would have been useful to know how many other Federal programs use Orshansky data for allocation purposes and how those programs deal with the updating problem.

Some aspects of using AFDC children in the formula are analyzed, but the report does not attempt to confirm or deny one of the reasons suggested for including the AFDC children in the first place -- to adjust the eligibility factor annually in order to keep track of shifts in the poverty population.<sup>26/</sup> An analysis would have been useful on the extent of annual adjustments occurring because of the AFDC inclusion, and an estimate on whether the adjustments reflect any actual changes in poverty populations. The AFDC figures might also be justified as a method for increasing allocations to urban areas with high educational costs, but there is no analysis of the extent to which such areas have higher costs or whether the Title I cost factor is sufficient by itself to meet these possible needs. The major alternative to the current AFDC factor in the 1974 Congressional deliberations on Title I was the use of the full AFDC caseload in the formula, yet this alternative was not investigated in the NIE report.

The report contains no analysis of the 85 percent hold-harmless

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<sup>26/</sup> A discussion of this question may be found in U.S. Congress. House. Committee on Education and Labor. Report to Accompany H.R. 69. Washington, February 21, 1974. (93rd Congress, 2nd Session. House. Report no. 93-805), p. 9.

provision on Title I allocations to counties and school districts. Although few districts currently benefit from this provision, many would be likely to if the formula were revised without a significant increase in appropriations. An analysis or a discussion would have been useful concerning possible percentages of, for example, 100 percent, 85 percent, and some smaller amount, for the hold-harmless provision, including the likely administrative and programmatic consequences at the district and school levels for these different amounts.

Since the overall NIE study is about compensatory education programs rather than just ESEA Title I, and since 16 States operate their own compensatory education programs, it might have been helpful to report on the allocation procedures of the State programs. Perhaps some States have found a more efficient method of distributing funds or a better measure of poverty. Although the NIE study has included the State programs in some of its surveys, this report does not mention them in regard to the allocation of funds.

## V. Context of the Report

One of the provisions of the Education Amendments of 1974 required that the NIE make a study of the purposes and effectiveness of compensatory education (section 821, Public Law 93-380). Specifically, the study shall include:

- a. an examination of the fundamental purposes of compensatory education;
- b. an analysis of the means to identify the children with the greatest need for such programs;
- c. an analysis of the effectiveness of methods and procedures for meeting the educational needs of such children;
- d. an exploration of alternative methods for distributing compensatory education funds to States and school districts in a timely and effective manner;
- e. not more than 20 experimental programs, geographically representative, to assist the NIE in carrying out the purposes of this study; and
- f. findings and recommendations, including recommendations for changes in ESEA Title I or for new legislation.

Funding for the NIE study amounted to \$15 million, to be obligated during fiscal years 1975 through 1977. As amended by Public Law 94-482, the law requires the NIE to submit interim reports to the President and the Congress on December 31, 1976, and on September 30, 1977, and to submit a final report on September 30, 1978.

Six reports constitute the NIE interim report of September 1977. These are entitled:

- "Administration of Compensatory Education"
- "Compensatory Education Services"
- "Demonstration Studies of Funds Allocation Within Districts"
- "The Effects of Services on Student Development"
- "Title I Funds Allocation: The Current Formula"
- "Using Achievement Test Scores to Allocate Title I Funds"

The interim report of December 1976 is entitled "Evaluating Compensatory Education." It discusses NIE's strategy for the overall study and presents preliminary findings of a survey of compensatory educational services in 100 school districts.

The NIE has designed 35 research projects to make a comprehensive response to the mandates of the legislation. The specific projects, the contractors, and the completion dates of each project are described in Appendix B of "Evaluating Compensatory Education." The NIE has divided the projects into four major areas of inquiry:

- a. funds allocation research, including alternate measures of poverty, not more than 20 experimental programs for school districts (16 districts participated in the first year, 13 in the second year), a computerized simulation model, an analysis of the relationship between poverty and educational achievement, the distributional consequences of using student achievement measures, and the subcounty allocation process;
- b. research on services, including a survey of compensatory education in 100 school districts, case studies on noninstructional services provided under ESEA Title I, and a teacher-training study;

- c. research concerning effects on children, including alternative approaches to education, such as cross-age tutoring, client-controlled elementary schools, the extent of parental involvement, and some studies of teaching basic skills in reading and mathematics; and
- d. administration, including a study of the Federal administration of ESEA Title I, a survey of how States regulate ESEA Title I and State compensatory education programs, a case study on ESEA Title I and desegregation, a study of parent advisory councils, a study of the participation of nonpublic schoolchildren in compensatory education programs, a review of test bias and the classification of children. (A study of the problems of implementing ESEA Title I in rural schools was originally planned, but has been cancelled.)

The ESEA Title I authorization for appropriations was extended through fiscal year 1979 under the provisions of the Education Amendments of 1977 (P.L. 95-112, September 24, 1977). Without further Congressional action, section 414 of the General Education Provisions Act will automatically extend Title I for one additional year. Several bills have been introduced in the 95th Congress to extend Title I authorization for additional years, including:

H.R. 15 (Perkins), "Elementary and Secondary Education Act of 1977." Among other provisions, extends the Title I authorization through fiscal year 1983, making no other changes in Title I legislation.

S. 1753 (Pell), "Elementary and Secondary Education Act of 1977." Contains Title I provisions similar to H.R. 15.

H.R. 7571 (Quie), "Elementary and Secondary Education Act of 1977." Among other provisions, extends the Title I authorization through fiscal year 1982, but changes the purpose of Title I to provide financial assistance for programs that help overcome deficiencies in children's basic learning skills, and would allocate funds according to educational need as measured by an assessment of reading, mathematics, and language arts.

H.R. 9968 (Chisholm), "Title I Amendments Act of 1977." Among other provisions, extends the Title I authorization through fiscal year 1982, and provides for greater Title I parental involvement through the existing parent advisory councils, and modifies various Title I administrative requirements regarding State applications, audits, complaints, and the enforcement of provisions. Would also authorize certain additional summer education programs, parent education programs, and personnel retraining programs.

NOTE: A more current and detailed description of Congressional activity on the extension of ESEA Title I, including hearings, reports, legislation, and other Congressional action, may be found in:

U.S. Library of Congress. Congressional Research Service. Title I of the Elementary and Secondary Education Act by Robert F. Lyke. (Frequently updated) Issue Brief 77107.